

Virginia Board of Accountancy Regulations

Executive Order Number Twenty-Four (98)

Attachment 5

A statement detailing any changes, other than strictly editorial changes, that the proposed regulation will implement, along with citations to the appropriate sections of the regulation, including cross-referenced citations when the proposed regulation is intended to replace an existing regulation.

Under section *18 VAC 5-20-10* of the proposed emergency regulations, certain definitions have been added or deleted [excluding strictly editorial changes] to comply with the mandated provisions established in Senate Bill 926 (1999). All of the amended definitions that appear in this section have been amended in accordance with the new requirements of the Chapter 20 of Title 54.1 of the *Code of Virginia*.

Under section *18 VAC 5-20-11* of the proposed emergency regulations, the fee schedule governing application fees, examination fees, renewal fees and reinstatement fees has been established in compliance with Section 54.1-113 of the *Code of Virginia*. In addition, a prorated fee schedule has been established to accommodate the mandatory implementation, as a result of Senate Bill 926 (SB 926), of an annual renewal for the newly created CPA certificates and the new firm registration mandate. Note that the September 30 expire date for individuals is being converted to a “staggered” renewal wherein a more or less equal number of certificates will expire each month. The renewal fees are mandated in Section 54.1-2004 of the *Code*.

Under section *18 VAC 5-20-20* of the proposed emergency regulations, new qualifications for education, examination and eligibility to receive a CPA certificate have been established for candidates who will be applying for an initial CPA certificate after July 1, 2006. SB 926 has amended Section 54.1-2003 to establish different standards for applicants who apply prior to July 1, 2006 and thereafter. A greater concentration of core courses will be required. In addition, if an applicant passes two or more but not all sections of the CPA licensing examination, then the applicant shall be given credit for those sections that the applicant has passed and need not sit for reexamination in those sections, provided that certain conditions are met. Each applicant for initial issuance of a CPA certificate under this section shall provide documentation of having met the experience requirements established by §54.1-2003 C of the Code of Virginia, which requires at least one year of acceptable experience in accounting or a related field. The experience may include providing any type of service or advice involving the use of accounting, management, financial, tax, or consulting advisory skills or services. Acceptable experience shall include employment in government, industry, academia or public accounting or related services.

Sections *18 VAC 5-20-30 and 18-VAC 5-20-40* have been deleted in their entirety.

Section *18 VAC 5-20-41* of the proposed emergency regulations is a new section in its entirety governing the issuance of an original CPA certificate, certificate by endorsement and substantial

equivalency qualifications and supervising CPA qualifications. Specifically, SB 926 establishes that “certificate holders” and “licensees” will both become holders of CPA certificates – ending the current two-tier system. In order to obtain a CPA certificate, the applicant must complete the education, examination and experience requirement. Once all requirements are met, the individual may obtain a CPA certificate, which will act as a license. This certificate then allows the individual to practice public accountancy.

SB 926 also establishes that each applicant for a certificate by endorsement will be required to submit an application which shall document that the applicant holds a corresponding certificate as a certified public accountant issued after meeting examination and other requirements under laws of the state(s) from which the applicant is seeking endorsement.

Sections *18 VAC 5-20-50 thru 18-VAC 5-20-80* have been deleted in their entirety.

Section *18 VAC 5-20-81* of the proposed emergency regulations is a new section in its entirety which establishes additional requirements for Supervising CPAs. In addition to the one year of experience required to receive a CPA certificate, such individual shall have completed one year of additional experience in the practice of public accounting, as defined in *18 VAC 5-20-10*, with not less than 600 of these hours in the performance of audits. One year of experience shall consist of no fewer than 2,000 hours of full or part-time employment that extends over a period of no less than one year and no more than three years. The experience must have been gained under the direct supervision of a CPA licensed in any state.

Section *18 VAC 5-20-90* has been deleted in its entirety.

Section *18 VAC 5-20-91* of the proposed emergency regulations is a new section in its entirety which establishes new requirements for the registration of CPA firms. To implement the provisions of SB 926 and the amended § 54.1-2005 B of the *Code of Virginia*, any firm with one or more offices in the Commonwealth which practices, directly or indirectly, public accounting or which uses the term “Certified Public Accountant(s)” or the designation “CPA” in the name of the firm shall register with the board within sixty days of its formation or initially meeting the requirement to obtain a registration certificate. Any such firm in existence prior to October 1, 1999, which had not previously registered with the board shall register by November 30, 1999. To implement the provisions of § 54.1-2005 C of the *Code of Virginia*, any firm with an office in the Commonwealth providing or offering to provide services involving the practice of public accounting shall be issued a registration certificate by the board upon its application and payment of the required fee provided the firm is in compliance with § 54.1-2005 C of the *Code of Virginia*. To implement § 54.1-2005 C 3 of the *Code of Virginia*, all non-CPA owners shall work in the firm. “Work in the firm” shall mean that the non-CPA owner works full-time for the firm, and that retirees shall have one year from the last day of their full-time involvement with the firm to dispose of their interest. Heirs shall have two years in which to dispose of the ownership interest.

Under sections *18 VAC 5-20-100 and 18 VAC 5-20-110* of the proposed emergency regulations, the requirements for renewal and reinstatement of CPA certificates have been amended to implement the provision of SB 926 and section 54.1-2003 of the *Code*. Specifically, registration

certificates issued to professional corporations and professional limited liability companies, in accordance with the regulations of the board in effect beginning on April 1, 1997 shall become void on November 30, 1999. Those firms shall register with the board in compliance with the requirements of 18 VAC 5-20-91 no later than November 30, 1999.

Sections 18 VAC 5-20-120 thru 18 VAC 5-20-440 have been deleted in their entirety.

Sections 18 VAC 5-20-441 thru 18 VAC 5-20-444 of the proposed emergency regulations have been added to establish new standards of practice and conduct for all regulants in compliance with the new provisions of SB 926. Of note, as provided in § 54.1-2007 D 2 and 3 of the *Code of Virginia*, a CPA certificate holder shall not perform for a contingent fee: (i) any services for, or receive such a fee from, a client for whom the CPA certificate holder or the CPA certificate holder's firm performs services which involve the practice of public accounting, during the period when such services are being provided and during the period covered by the financial statements; or (ii) prepare an original tax return or claim for a tax refund for a contingent fee for any client. As provided in § 54.1-2007 D 1 of the *Code of Virginia*, a CPA certificate holder shall not recommend to a client any product or services for a commission, or, for a commission, recommend or refer any product or service to be supplied by a client, or receive a commission when the CPA certificate holder also performs for that client any service which involves the practice of public accounting. This prohibition applies during the period in which the CPA certificate holder is providing services which involve the giving of an assurance or during the period covered by any financial statements that were prepared by the CPA certificate holder as a part of such services. As provided in § 54.1-2007 E of the *Code of Virginia*, a CPA certificate holder who is not prohibited from accepting a commission and who is paid or expects to be paid a commission shall disclose that fact to any person or entity to whom the CPA certificate holder recommends or refers a product or service to which the commission applies. As provided in § 54.1-2007 F of the *Code of Virginia*, a CPA certificate holder who accepts a referral fee for recommending or referring any service of a CPA certificate holder shall disclose such payment to the client.

Section 18 VAC 5-20-442 thru 18 VAC 5-20-444 establish specific Standards of practice for CPA certificate holders involved in various aspects the practice of public accounting providing specific services as identified by SB 926.

Sections 18 VAC 5-20-445 of the proposed emergency regulations has been added to establish new standards of practice for new firm regulants as established by SB 926.

Section 18 VAC 5-20-450 has been deleted in its entirety.

Section 18 VAC 5-20-450 has been added to clarify new CPE requirements. As provided in §54.1-2004 B of the *Code of Virginia*, any person referring to himself as a Certified Public Accountant or "CPA," including the use of the "CPA" title on individual business cards, letterhead and all other documents and devices except the CPA certificate, and who is performing or offering to perform any services involving accounting skills or auditing skills, issuing reports on financial advisory or consulting services, preparing tax returns, or furnishing advice on tax matters, for the public, shall obtain 120 hours of continuing professional education

during each three-year period with a minimum of 20 hours per year. The CPA certificate holder may choose the areas of study and courses. As provided in § 54.1-2004 C of the Code of Virginia, effective July 1, 2002, any person referring to himself as a Certified Public Accountant or "CPA," including the use of the "CPA" title on individual business cards, letterhead and all other documents and devices except the CPA certificate, and who is performing or offering to perform any services involving accounting skills or auditing skills, issuing reports on financial advisory or consulting services, preparing tax returns, or furnishing advice on tax matters, for an employer or other organization and not for the public, or who is employed as an educator in the field of accounting, shall meet the following CPE requirements as a condition of renewal of the person's CPA certificate: (i) for the three-year reporting period beginning July 1, 2002, a minimum of 45 credit hours with a minimum of 10 hours per year, (ii) for the three-year reporting period beginning July 1, 2005, a minimum of 90 credit hours with a minimum of 15 hours per year, and (iii) for the three-year reporting periods beginning on or after July 1, 2008, a minimum of 120 credit hours with a minimum of 20 hours per year. The certificate holder may choose the areas of study and courses.

Sections *18 VAC 5-20-460 thru 18 VAC 5-20-500* have been deleted in their entirety.